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Original Paper

Strategic Outsourcing and Corporate Performance in Nigerian Banking Industry

Ugbomhe, O. Ugbomhe[1]*, Ojo Olu[2] & Ebomah Ernest Monday[3]

[1] Department of Business Administration, Faculty of Management Sciences, Ambrose Alli University, Ekpoma, Edo State, Nigeria

[2] Department of Business Administration, Faculty of Management Sciences, Osun State University, Osun State, Nigeria

[3] Department of Business Administration, Faculty of Management Sciences, National Open University of Nigeria (NOUN), Asaba Study Centre, Nigeria

[*] Ugbomhe O. Ugbomhe, Department of Business Administration, Faculty of Management Sciences, Ambrose Alli University, Ekpoma, Edo State, Nigeria

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Abstract

This study examined strategic outsourcing and corporate performance of commercial banks in Nigeria. The decision to outsource is driven by the perception of management on how organization can achieve corporate effectiveness and efficiency with outsourcing strategy. This study specifically focused on two objectives; to investigate the relationship between strategic outsourcing and corporate performance and to ascertain the correlation between recruitment outsourcing and corporate performance. The study used a total number of twenty two (22) commercial banks listed in the Nigerian Stock Exchange (NSE) as at 31st January 2021 in its study. Primary data were collected from the population of the study with the aid of structured questionnaire and data were analyzed through descriptive statistics and the two hypotheses formulated were tested by Pearson Product Moment Correlation (PPMC) with the use of Statistical Package for Social Science (SPSS). The results of the study revealed a significant positive relationship between strategic outsourcing and corporate performance and a significant positive relationship between recruitment outsourcing and corporate performance. The study concluded that strategic outsourcing and recruitment outsourcing have positive relationship with corporate performance. The study, therefore, recommends that corporate organizations that want to achieve significant performance in their operations should outsource some of their activities that are outside its core competence.

Keywords

Strategic outsourcing, recruitment outsourcing, corporate performance and banking industry

1. Introduction

The increased rate of unemployment in Nigeria is one of the most fundamental and worrisome problems confronting the country in recent years. The decline in job availability has been widely attributed to new technology, cut throat competition from foreign companies and failure by many organizations to outsource their production and services. As competition gets more intense, organizations are forced to find ways to improve business performance and to obtain competitive advantage. Therefore organizations are looking beyond the traditional boundaries of the firms to improve corporate performance. They have been increasingly turning to outsourcing in an attempt to enhance their competitiveness, increase profitability and refocus on their core business (Richtner & Rognes, 2013; Zachart & Jane, 2014).

Outsourcing involves the sourcing of goods and/or services previously produced internally within an organization from external suppliers. It was further described by Grossman & Helpman (2002), as finding a partner with which a firm can establish a bilateral relationship and having the partner undertake relationship-specific investments so that it is able to produce goods or services that fit the firm's particular needs. Outsourcing covers many areas such as outsourcing of manufacturing as well as services as well as the transfer of an entire business process to a supplier. It may also lead to the transfer of some activities associated with the process while some are kept in-house. In addition, outsourcing can also involve the transfer of both people and physical assets to the supplier.

Several studies have been conducted on outsourcing (Liu & Trefler, 2008; Munch, 2010; Piero & Michela, 2012). Thus, there is an impressive literature on the financial and strategic reasons why firms should outsource. However, the influence of strategic outsourcing and recruitment outsourcing on commercial banks operations and activities in developing countries is far less documented (Agboola, 2005; Mclvor, 2008; Akanbi, 2015). Therefore, there is need to bridge this research gap, which is the main thrust of this empirical investigation. It is against this background that this study seeks to investigate the relationship between strategic outsourcing and corporate performance and to ascertain the correlation between recruitment outsourcing and corporate performance in the Nigerian banking industry.

2. Literature Review

2.1 Concept of Outsourcing

Outsourcing is one of the management strategies that originated in a small scale high-tech manufacturing sector in the 1950s. However, it was during the 1980s that the practice of outsourcing came to the limelight and became more widely used by many organizations. Hatonen and Eriksson (2009), Bardhan and Kroll (2003) noted that the 1990s saw an increase in the outsourcing of services based functions. Zachart and Jane (2014) suggested that outsourcing is the act of one company contracting with another in order to provide services that might otherwise be performed by in-house employees. Other authors (Gustafason, 1995; Hood, 1997) agreed with the notion of contracting or/and sub-contracting. The understanding from this concept can be interpreted that there is an agreement between parties on service provision. In all the cases the deal or pact would be with an organization which is seen to be well established and conversant with the goods and services being offered. On the other hand, this could be a decision for an organization to be making particular products, goods and services or buying them from another organization as Seidenstat (1996) and Sharpe (1997) concurred. Sharpe (1997) added that these two organizations would be focusing their efforts on activities that they do best while Brown and Wilson (2005) agreed and looked at it as an organization's core competencies.

Outsourcing is the act of obtaining goods or services from individuals or organizations outside of a firm's boundaries when those goods or services could be created internally by a firm's own employees and managers (Brownc & Wilson, 2005). It is basically the transfer of an internal service or function to an outside vendor. Gachunga and Munyaka (2013) simply describe outsourcing as the transfer of the management or day-to-day execution of an entire business function to an external service provider. Differentiating the term "outsourcing'' from "off-shoring", Oslen (2006) averred that the former is the relocation of jobs and processes to external providers regardless of the provider's location while off-shoring refers to the relocation of jobs and processes to any foreign country without distinguishing whether the provider is external or affiliated with the firm. Therefore, outsourcing involves job relocations both within and between countries.

2.2 Concerns about Outsourcing

Organizations faced a number of concerns when deciding to adopt a particular outsourcing model. Outsourcing alienates employees in the parent company (Harrison & McMillan, 2006). The uncertainty of the future of the organization outsourcing affects the morale of employees, staff retention as well as employees' performance level (Harrison & McMillan, 2006). Both clients and customers encountered a number of difficulties in accepting that outsourcing (Currie, Michell, & Abanishe, 2008). Another concern is the perception of exploiting the vendors by paying low salaries and not providing adequate working conditions. Many large organizations have histories of mistreating and underpaying staff in many developing countries (Chan, Wong, Cheung, & Lo, 2006). Cultural difficulties explain how business communication, work-life balance, business etiquette, among other things can be challenging to adopt by outsourced location's staff (Dad & Iqbal, 2013). Loss of control and security issues also affects outsourcing. Operating with large sums of money in countries where staff are being paid low wages can increase the requirement for greater security measures and monitoring costs (Swartz, 2004). The threat of intellectual property theft has been shown to be a major concern in developing countries affecting outsourcing (Herath & Kishore, 2009).

2.3 Outsourcing Rationale

Plethora of empirical studies has shown that outsourcing has positive effects on organizations. Yeboah (2013) noted that companies outsource to improve their quality and speed of their performance as well as value creation. Outsourcing is cost effective; as it allows organizations to concentrate on their core competencies and to purchase the products or services from expert companies than to produce in-house (Kin, 2008). Outsourcing encourages optimal usage of staff without having to hire or provide training and time for learning thereby saving cost (Kin, 2008). According to Oslen (2006), the proponents of outsourcing argued that the phenomenon has long term economic benefits, and that it will eventually increase workers' living standards through positive productivity effects and reductions in factors costs as well as firms' ability to focus on core competences while D'Aveni and Ravenscraft (1994) opined that every business has limited resources, and every manager has limited time and attention. Outsourcing can help business to shift its focus from peripheral activities toward work that serves the customers, and it can help managers set their priorities more clearly. Improving operating efficiency is another positive effect of outsourcing (Elmuti, 2003). Dey, Houseman and Polivka (2006) investigated the contribution of outsourcing to employment services on manufacturing labour productivity estimates and found that outsourcing of employment services increases and depresses the growth rate of labour productivity at different times. They therefore, assert that outsourcing will result in misleading increases in manufacturing labour productivity.

2.4 Corporate Performance

The concept of corporate performance emanates from the concepts of efficiency and effectiveness. A business organization that produces the right products and services produces them using the fewest possible inputs if it is to have a strong corporate performance (Cheng, 2011). Corporate performance is the accomplishment of a set of activities or projects of an organisation as measured against their earlier expected outputs, goals and objectives. Richard, Devinney, Yip and Johnson (2009) considered corporate performance to include financial performance (profits, return on assets and return on investment), product market performance (sales and market share) and shareholder return (total shareholder return and economic value added).

Corporate performance can be measured by analyzing a company's performance as compared to its corporate goals and objectives based on three primary outcomes-financial performance, market performance and shareholder value performance. Businesses simply attempt to perform well in a number of areas of their activities. Most importantly, they strive to do well financially in terms of achieving superior profitability and realizing good returns on investment. In order to acquire as much market share as possible, it is imperative that companies produce a product that is in demand and offer it at a price that allows them to compete in the market. Every business organization needs to perform well in terms of creating value for their shareholders by ensuring a sustainable level of growth and shareholder return (Kaplan & Norton, 1996). Corporate performance entails sales growth, market share, and profitability. In addition, factors such as customer satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms (Cheng, 2011). This approach is consistent with the proposal of Kaplan and Norton (1996) in their description of balanced score card that the performance of a firm should be measured in four perspectives-financial, customer, learning and growth and internal business processes. The balanced score card directs that managers should use both financial and non-financial measures to evaluate an organization. In the context of this study, corporate performance is on four components - profitability, sales growth; market share and customer satisfaction.

2.5 Theoretical Framework

In today's contemporary business world, numerous theories that explain outsourcing phenomenon abound. This present study is premised on two theories viz Resource-Based View Theory and Core Competency Theory. The former (RBV) considers that a firm must possess unique resources that enable it to achieve competitive advantage (Espino-Rodrigueze & Padron-Robaino, 2006). The RBV advocates that an organization puts into consideration the internal strengths and weaknesses. A firm's resource perspective generates the core competencies and competitive advantage for specific business activity. In view of RBV theory, outsourcing is taken as a strategic decision which can be used to fill gaps in the firm's resource and capabilities (Grover, Teng, & Cheon, 1998). This theory explains the dimension of relationship between service receiver and service provider of a firm. The latter (CCT) expresses core competency as the collective learning in the organization on how to coordinate diverse production skills and integrate multiple streams of technologies. This theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buy decision. Non-core activities should be considered for out sources to the best suited service providers who are experts in that field. However some few non-core activities which have a big impact on competitive advantage should be retained in house. The process of outsourcing non-core competencies continues to gain importance as it transfers responsibilities such as maintenance and transport functions, in the hands of suppliers most capable of performing them most successfully. The vendors' competence is an important factor that influences the success of an outsourcing arrangement (Chandra & Kumar, 2000; Lavina & Rose, 2003).

2.6 Empirical Review

Gilley and Rasheed (2000) conducted a study on the influence of outsourcing on organizational performance. The result of the study indicated that firms seeking for intense outsourcing strategies do not experience significant performance. Holger and Aoife (2004) investigated the relationship between outsourcing and profitability at the level of the plant, using data for the electronics sector in the Republic of Ireland. Their results suggested that the profit of outsourcing relationship depends on characteristics of the plant, in particular its size. Another research conducted by Ibukun (2005) examined in multiple perspectives, the concepts of business process outsourcing, issues and effects of outsourcing on organizational performance. It focused on the benefits, drivers and challenges companies face in outsourcing their non-core activities and how they achieve performance through effective outsourcing. The study found that outsourcing plays an important role in organizations, helping them ensure competitiveness, competitive advantages, increase efficiency and effectiveness. Also, Felix (2016) examined the effects of outsourcing on organization performance in manufacturing sector in Kenya. The research objectives were to determine whether cost, quality and technology associated with outsourcing affect organizational performance. The results revealed that that cost, quality, technology adaption and organization performance had a significant strong positive relationship.

3. Method

The study used descriptive survey research design in estimating the relationship between strategic outsourcing and corporate performance of commercial banks in Nigeria. Primary data were collected from the respondents through questionnaire instrument and the data were drawn from twenty two (22) commercial banks listed in the Nigerian Stock Exchange (NSE) as at 31st January 2021, which is the study population. Data collected were analyzed through statistical tool of Pearson Product Moment Correlation (PPMC) for hypothesis one and multi-regression for hypothesis two using Statistical Package for Social Science (SPSS).

4. Results and Discussion

Hypothesis 1: There is no significant relationship between strategic outsourcing and corporate performance in the Nigerian banking industry.

Table 1. Pearson Product Moment Correlation

		1	2	3	4	5	6
Outsourcing has led to improvement in corporate performance (1)	Pearson Correlation	1	.059	.012	.096	-.136	.045
	Sig. (2-tailed)		.504	.895	.279	.123	.610
Outsourcing has reduced overhead and other fixed costs in the organization (2)	Pearson Correlation		1	.131	.204*	.125	.276**
	Sig. (2-tailed)			.138	.020	.157	.001

Outsourcing costs is lower than the cost of acquiring more resources to executing the job internally (3)	Pearson Correlation	1	-.151	.313**	.155
	Sig. (2-tailed)		.086	.000	.079
Outsourcing is one way the bank has innovated and remained competitive (4)	Pearson Correlation		1	-.028	.019
	Sig. (2-tailed)			.748	.834
Outsourcing reduces the risk of doing business (5)	Pearson Correlation			1	.475**
	Sig. (2-tailed)				.000
Outsourcing has led to great improvement in operational efficiency (6)	Pearson Correlation				1
	Sig. (2-tailed)				

Note. **. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2- tailed).

As shown in Table 1 above, strategic outsourcing has significant positive relationship with corporate performance in the Nigerian banking industry. As depicted in the table, outsourcing significantly reduced the overhead and other fixed costs by 0.59 (59%), which is 59% contribution margin to corporate performance in the industry. The correlation value of 0.012 is an indication that the cost of outsourcing is lower than the cost of acquiring more resources for job execution. The correlation value of 0.096 signifies the rate of innovation and competiveness associated with outsourcing in the industry while the values of -0.136 and 0.045 explain/depict the risk reduction rate and operational efficiency rate, respectively. Thus, the variables were statistically significant at 99% and 95% significance level. This implies that there is significant positive correlation between strategic outsourcing and corporate performance. Arising from these results, the null hypothesis is rejected and alternative hypothesis that there is a relationship between strategic outsourcing and corporate performance formulated is accepted.

Hypothesis 2: There is no significant relationship between recruitment outsourcing and corporate performance in the Nigerian banking industry.

Table 2. Multi Regression Analysis on Recruitment Outsourcing and Corporate Performance

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.367	.135	.100	1.073

The model summary in Table 2 gives R^2 value=0.135. This shows that outsourcing has created better intellectual value for corporate performance. Commercial bank needs to concentrate on their core functions in order to remain competitive. Commercial banks use outsourcing as strategic tool to free up the banks' resources so as to focus on its core competencies. In addition, outsourcing has enabled commercial banks to concentrate their efforts on building and expanding their best-in-world competencies. Outsourcing has made flexibility in organizational structure and strategy which has given the banks' competitive edge in the market. Thus, the model predicts 13.5% of the variance in the corporate performance pooling all factors together simultaneously. This means that 13.5% of the variance is determined by the predictors captured in this model. With this, the study concludes that recruitment outsourcing strategy has significant positive impact on corporate performance in the Nigerian banking industry.

Table 3. Multiple Regression Analysis Showing Significance of Predictors on Recruitment Outsourcing Strategy

Model	Sum of Square	Df	Mean Square	F	Sig.
Regression	22.242	5	4.448	3.862	0.003[b]
Residual	142.835	124	1.152		
Total	165.077	129			

Note. *p<0.05; Dependent Variable: Corporate Performance.

Table 3 shows that recruitment outsourcing strategy variables used in the study significantly predicted the level of corporate performance, F (5,129)=3.862, p>0.05 (Sig. 0.003). F-statistical indicates that the overall regression model is highly statistically significant in terms of its goodness of fit since the value of F_{tab} (5,129)>F_{cal} (3.862). Thus, the study concludes that there is a significant relationship between recruitment outsourcing strategy and corporate performance.

Table 4. Contributions of each Predictor on Recruitment Outsourcing Strategy

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.753	.880		1.992	0.49
	.119	.104	.099	1.146	.254
Outsourcing created better intellectual value for the commercial banks in the long run.	.210	.115	.156	1.825	.070
Commercial banks need to concentrate on their core functions to remain competitive.	-.250	.123	-.185	-.2.030	.044
Commercial banks use outsourcing as strategic tool to free up the banks' resources so as to focus on its core competencies.	.250	.094	.233	2.658	.009
	.257	.099	.231	2.611	.010
Outsourcing has enabled commercial banks to concentrate their efforts on building and expanding their best-in-world competencies.					
Outsourcing has made flexibility in the banks' structure and strategy possible which has given them competitive edge in the market.					

Note. Dependent Variable: Corporate Performance.

Table 4 shows the contributions of the predictors on recruitment outsourcing strategy. With the beta value of 0.233, $p<0.05$ and t-value of 2.658, it signifies that outsourcing has enabled commercial banks in the Nigerian banking industry to concentrate their efforts on building and expanding their best in world-class competences. In the Nigerian banking industry, outsourcing has created flexibility in the Nigerian banks' structure and strategy possible which has given them competitive edge in the market with the beta value of 0.231, $p<0.05$ and t-value of 2.611. The beta value of -0.185, $p<0.05$ and t-value of -2.030, beta value of 0.156, $p<0.05$ and t-value of 1.825, beta value of 0.099, $p<0.05$ and t-value of 1.146 depict that commercial banks in Nigeria use recruitment outsourcing as strategic tool to free their resources so as to be more focus on their core competencies; need to concentrate on their core functions to remain competitive and that outsourcing in the Nigerian banking industry has created better intellectual value for the banks in the long run, respectively. Based on these results, all the predictors are statistically significant. Hence, the study concludes that there is a significant relationship between recruitment outsourcing strategy and corporate performance.

5. Conclusion and Recommendations

The use of strategic outsourcing by some corporate organizations is on the increase in today's business operations in Nigeria. Having examined the impact of strategic outsourcing on corporate performance in the Nigerian banking industry, the results show that strategic outsourcing and recruitment outsourcing have significant positive effect on corporate performance of commercial banks in Nigeria. Hence, the study recommends that corporate organizations in Nigeria that have not taken the advantage of outsourcing and that want to remain competitive in their operations should make strategic outsourcing as part of organizational policy to harness the services from individuals and other organizations that are outside their core competences for operational effectiveness and efficiency.

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